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AUDIT REPORTS

Follow-up to recommendations of the report of the Board of Auditors for the biennium 1992-1993 (A/49/5/Add.1)

Three-year plan for the utilization of the Reserve for Field Accommodation

Report of the Administrator

I. PURPOSE

1. The Administrator would like to refer to paragraph 9 (b) and subsequent paragraphs related thereto of the report of the Board of Auditors for the 1992-1993 biennium (A/49/5/Add.1), in which the Reserve for Field Accommodation (RFA) was commented upon. As mentioned therein, UNDP reviewed and discussed the status of the RFA with the Board of Auditors during the audit exercise for the biennium 1992-1993. UNDP indicated to the Board of Auditors its intention to rationalize the housing stock by ending its obligations with respect to these properties wherever possible. In its report, the Board of Auditors recommended that an overall implementation plan be drawn up for the disposal of properties in the field.

2. At its third regular session 1994, as part of the annual review of the financial situation, 1993 (DP/1993/34), the Executive Board was informed of the status of the RFA as at 31 December 1993. In paragraph 5 of its decision 94/28, the Board noted with concern the overcommitment and overexpenditure in the RFA and requested that a three-year plan on the utilization of the reserve be presented to the Board at its current session 1995.

3. The present document, which responds to both the recommendations of the Board of Auditors and the request of the Executive Board, provides the framework and estimated targets on which basis a detailed implementation plan for the utilization of the RFA covering the period 1994-1996 will be developed.

II. BACKGROUND

4. The RFA was established in 1979 as a revolving fund at a level of $25 million, when it was concluded that the lack of adequate housing for United Nations field personnel was the single most important factor affecting the timely delivery of the UNDP programme in many countries. Until 1989, most of the expenditures related to the Reserve included loans to Governments to finance construction of United Nations staff housing accommodation. The repayment of such loans was amortized over a maximum period of 15 years through rental income. Other expenditures included repairs and rehabilitation of completed housing units, as well as the operation of the Household Appliance Rental Scheme (HARS).

5. In 1989, the mandate of the RFA was extended to finance the construction of United Nations System Common Premises (UNSCP) for the partners of the Joint Consultative Group on Policy (JCGP) and other specialized agencies. Expenditures in preconstruction costs, such as planning and architectural fees, for new common premises projects were also incurred at that time. In document DP/1989/54, the Administrator indicated that, since housing and office accommodation for field personnel continued to constitute a serious problem, it might eventually be necessary to seek authorization from the Governing Council for an increase in the level of the Reserve. Pending a cash-flow analysis, and in order to enable the approval of priority projects, the Governing Council in its decision 89/57, authorized the Administrator to overcommit the RFA in an amount not to exceed $10 million above the initially established level of the reserve, provided that disbursements would not exceed $25 million at any time.

6. During the biennium 1990-1991, new construction of common premises started. Construction of both office and housing accommodation was undertaken under either UNDP investment or government loan modalities. In 1990, as reported to the Governing Council in document DP/1990/64, a cash-flow analysis indicated that the level of the Reserve was, at that time, sufficient to cover the commitments incurred. However, a deficit in the Reserve was foreseen for 1993. While the Administrator did not consider it necessary to increase the Reserve at that time, he wished to maintain the authority granted by decision 89/57 regarding the overcommitment. This authority was reiterated in Governing Council decision 90/44.

7. During the biennium 1992-1993, a combination of circumstances led to the overcommitment and overexpenditure of the RFA above the authorized level. Major housing and common premises investments were made in six African countries. Also, new construction of common premises was started in two Asian countries under the loan-to-government modality. In the case of common premises for UNDP and other United Nations agencies, UNDP disbursed funds for the construction on the understanding that they would be reimbursed by partner United Nations agencies. However, most of the overexpenditure resulted from a time-lag between the date of commitments made by the agencies to reimburse UNDP and the date when actual receipts of funds would materialize. Meanwhile, the construction, which was already initiated, could not be interrupted pending receipt of funds. At the same time, difficulties in certain countries, such as political unrest and security concerns, resulted in unforeseen delay and construction cost overruns. They also posed problems for maintenance. In addition, in some countries where

a housing operation existed non-United Nations housing availability improved, which led to lower-than-anticipated occupancy of UNDP housing units and thereby less rental income to replenish the RFA.

8. In view of this situation, it became evident that there was a need to rationalize the field accommodation operation since the need for UNDP to maintain staff housing was decreased. Also, UNDP recognized the fact that the management of a housing operation spread over 30 countries was becoming difficult and costly.

9. In mid-1993, during the audit exercise for the biennium 1992-1993, UNDP held extensive consultations with the Board of Auditors with regard to the situation of the RFA, at the level of both individual projects and the housing/common premise operation as a whole. As a result of these discussions, and following the advice from the Board of Auditors, UNDP decided to initiate the disposal of the majority of housing assets in selected countries, to discontinue the HARS, and to focus the utilization of the RFA towards projects relating to common premises. This decision was further discussed with the Board of Auditors, who expressed its satisfaction at the corrective actions being taken.

III. UTILIZATION PLAN FOR 1994-1996

10. As recommended by the Board of Auditors, UNDP is currently developing a detailed implementation plan for the utilization of the RFA over the period 1994 to 1996. The plan will be based on expected income and expenditure resulting from the following activities:

(a) Disposal of housing assets in certain countries;

(b) Operation of housing properties to be retained;

(c) Discontinuation of the household appliance rental scheme (HARS);

(d) Operation of completed common premises;

(e) Completion of new common premises under construction, for which reimbursement from partner agencies is anticipated.

11. The Administrator is pleased to advise the Executive Board that an initial estimate of income and expenditure related to the RFA for 1994-1996 indicate that the overall utilization and balance of the Reserve will be reduced from the level of $41.5 million as at 31 December 1993 to below $10 million for 1995 and 1996. Notwithstanding this, the Administrator wishes to point out that estimated expenditure for 1994 is expected to exceed the authorized level of $25 million, and the balance of the Reserve is expected to incur a slight increase from the 1993 level. As explained below, this will result from disbursements in 1994 relating to commitments incurred in 1993 for construction to be completed in early 1995, as well as a delay in receipt of funds for reimbursement from partner agencies.

12. In order to achieve the target levels of balance of the RFA for 1995 and 1996, the income and expenditure related to each of the activities in the plan have been estimated as follows:

(a) Housing identified for disposal comprises (i) housing presently leased from Governments or the commercial sector which will be returned to the landlords on expiration of the leases and/or (ii) housing investment to be sold. An initial assessment of market value for the properties to be disposed of indicate that an estimated $23 million in income is expected to be received over the 1994-1996 period;

(b) Housing units to be retained are those housing operations for which, because of the difficult housing situation and security reasons in some countries, the Administrator deems it necessary to maintain the current arrangement for the time being. Efforts will be made to dispose of such assets as soon as feasible. Meanwhile, the net expenditure in maintenance and rehabilitation of such units is expected to amount to $4.7 million for 1994-1996, which will be recovered in rental income over a maximum period of 15 years or upon disposal of the assets. An estimated $1 million in rent is expected to be received during the period 1994-1996;

(c) Household Appliance Rental Scheme - the expected proceeds from the disposal of all equipment under the HARS is expected to generate $0.4 million;

(d) Common premises completed are office buildings currently generating rental income to repay loans to Governments through an amortized period of 15 years. Negotiations are under way with some Governments to recover the full amount of the loan before maturity. However, in certain countries where loans have been made to finance premises, Governments may not be able to repay UNDP before the expiration of the loan date. UNDP may therefore have to carry the loan for the full amortization period with repayment being made through rental income. An estimated balance of $5.6 million is expected to be recovered in this fashion. An estimated $1.8 million in accumulated rental income will be transferred into the RFA during the period 1994-1996;

(e) New common premises under construction are scheduled for completion and occupation in early 1995. Estimated expenditure for this purpose for 1995 and 1996 also includes preconstruction costs for future common premises projects, such as architectural fees and space allocation, which will be recovered upon the finalization of commercial lease-purchase arrangements. An estimated $13.6 million of total expenditure for new common premises will have been incurred by the end of 1994. Reimbursement from partner agencies has been agreed upon in the amount of $12.2 million, of which the United Nations Children's Fund (UNICEF) and the United Nations Population Fund (UNFPA) have already paid $3.7 million of their agreed commitment. It is anticipated that the balance due from the JCGP partners will be paid in full by the end of 1995. The remaining $1.4 million will be recovered through rental income, of which $0.6 million will be received during the period 1994-1996.

13. The following table summarizes the expected income from the planned activities:

Planned activity	Estimated income
Housing assets for disposal	23.0
Housing to be retained	1.0
Common premises completed	1.8
New common premises	0.6
Reimbursement from agencies	12.2
HARS	0.4
Total	39.0

14. In summary, the expected status of the RFA at the end of the 1994-1996 period would be as follows:

	Millions of dollars
Actual balance as at 31 December 1993	41.5
Estimated expenditure	4.6
Estimated income	39.0
Estimated balance as at 31 December 1996	7.1

15. It should be noted that for all new construction of United Nations System Common Premises, the JCGP has agreed on the policy that efforts will be made to utilize funds from the private sector through a lease-purchase arrangement finalized by the United Nations Legal Office. While this modality will be used for new construction, it would not preclude the JCGP partners from considering other proposals from Governments related to the establishment of common premises. Except for preparatory work for establishing common premises, all costs will be negotiated with a developer on a turnkey basis, thus resulting in minimal use of funds from the RFA for project preparation.

16. The Administrator will submit to the Executive Board at its third regular session 1995, together with the review of the financial situation 1994, the status of the Reserve for Field Accommodation, including a progress report on the implementation of the work plan for its utilization.

IV. EXECUTIVE BOARD ACTION

17. The Executive Board may wish to:

(a) Take note of the planned utilization of the Reserve for Field Accommodation during the period 1994-1996;

(b) Request the Administrator to submit on an annual basis a report on the status of the Reserve for Field Accommodation as part of the annual review of the financial situation.